

**REPORT OF THE AUDIT OF THE
WAYNE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

July 8, 2004



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bruce Ramsey, Wayne County Judge/Executive
Honorable James L. Hill, Wayne County Sheriff
Members of the Wayne County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Wayne County Sheriff's Settlement - 2003 Taxes as of July 8, 2004.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Wayne County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
WAYNE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

July 8, 2004

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WAYNE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

July 8, 2004

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Wayne County Sheriff as of July 8, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,149,589 for the districts for 2003 taxes, retaining commissions of \$171,688 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,975,794 to the districts for 2003 Taxes.

Report Comments:

- The County Sheriff Should Require The Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits
- The County Sheriff Lacks Adequate Segregation of Duties

Deposits:

On November 6, 2003, \$20,247 of the Wayne County Sheriff's deposits of public funds were uninsured and unsecured by bank securities or bonds.

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Independent Auditor's Report

We have audited the Wayne County Sheriff's Settlement - 2003 Taxes as of July 8, 2004. This tax settlement is the responsibility of the Wayne County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Wayne County Sheriff's taxes charged, credited, and paid as of July 8, 2004, in conformity with the modified cash basis of accounting.

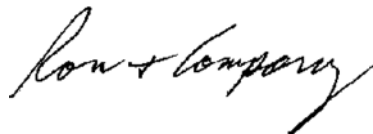
In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bruce Ramsey, Wayne County Judge/Executive
Honorable James L. Hill, Wayne County Sheriff
Members of the Wayne County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral To Protect Deposits
- The County Sheriff Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
September 15, 2004

WAYNE COUNTY
JAMES L. HILL, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

July 8, 2004

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|---|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate | \$ 408,412 | \$ 590,246 | \$ 1,802,548 | \$ 617,259 |
| Tangible Personal Property | 55,383 | 60,134 | 144,152 | 160,848 |
| Intangible Personal Property | | | | 37,806 |
| Fire Protection | 5,233 | | | |
| Increases Through Exonerations | 35 | 48 | 157 | 53 |
| Franchise Corporation | 74,936 | 81,609 | 194,233 | |
| Additional Billings | 123 | 179 | 555 | 186 |
| Oil and Gas Property Taxes | 111 | 153 | 500 | 167 |
| Limestone, Sand, and Mineral Reserves | 152 | 212 | 521 | 230 |
| Bank Franchises | 44,309 | | | |
| Penalties | 4,801 | 6,259 | 17,737 | 5,677 |
| Adjusted to Sheriff's Receipt | (2) | 14 | 4 | 9 |
| Gross Chargeable to Sheriff | <u>\$ 593,493</u> | <u>\$ 738,854</u> | <u>\$ 2,160,407</u> | <u>\$ 822,235</u> |
| <u>Credits</u> | | | | |
| Exonerations | \$ 2,700 | \$ 3,801 | \$ 11,716 | \$ 4,146 |
| Discounts | 7,683 | 9,398 | 28,079 | 12,179 |
| Delinquents: | | | | |
| Real Estate | 6,777 | 9,922 | 29,526 | 10,183 |
| Tangible Personal Property | 4,500 | 4,887 | 11,866 | 7,353 |
| Intangible Personal Property | | | | 684 |
| Total Credits | <u>\$ 21,660</u> | <u>\$ 28,008</u> | <u>\$ 81,187</u> | <u>\$ 34,545</u> |
| Taxes Collected | \$ 571,833 | \$ 710,846 | \$ 2,079,220 | \$ 787,690 |
| Less: Commissions * | <u>24,590</u> | <u>30,165</u> | <u>83,169</u> | <u>33,764</u> |
| Taxes Due | \$ 547,243 | \$ 680,681 | \$ 1,996,051 | \$ 753,926 |
| Taxes Paid | 546,985 | 680,322 | 2,078,123 | 753,533 |
| Commissions Refunded from School | | | 83,169 | |
| Refunds (Current and Prior Year) | <u>258</u> | <u>359</u> | <u>1,097</u> | <u>393</u> |
| Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| * See next page | | | | |

The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY
JAMES L. HILL, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES
July 8, 2004
(Continued)

* Commissions:

| | | |
|----------|----|-----------|
| 10% on | \$ | 10,000 |
| 4.25% on | \$ | 2,042,028 |
| 4% on | \$ | 2,097,561 |

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT

July 8, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 6, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$20,247 of public funds uninsured and unsecured.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT
July 8, 2004
(Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 6, 2003.

| | <u>Bank Balance</u> |
|---|----------------------------|
| FDIC insured | \$ 100,000 |
| Collateralized with securities held by pledging depository institution in the county official's name | 2,853,485 |
| Uncollateralized and uninsured | <u>20,247</u> |
| Total | <u><u>\$ 2,973,732</u></u> |

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2003 through May 28, 2004.

Note 4. Interest Income

The Wayne County Sheriff earned \$1,054 as interest income on 2003 taxes. As of September 15, 2004, the Sheriff was due \$7 in interest from the common school district and \$2 in interest from the graded school district. The Sheriff owed \$10 in interest to the fee account.

Note 5. Sheriff's 10% Add-On Fee

The Wayne County Sheriff collected \$22,357 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Wayne County Sheriff collected \$540 of advertising costs and \$2,125 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

WAYNE COUNTY
JAMES L. HILL, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of July 8, 2004

STATE LAWS AND REGULATIONS:

The County Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral To Protect Deposits

On November 6, 2003, \$20,247 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The County Sheriff Lacks Adequate Segregation of Duties

Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The Sheriff has assigned one deputy to perform all of the accounting functions of the office. We recommend that the Sheriff or someone else periodically review this work in order to create compensating controls to offset this internal control weakness. Examples of compensating controls are:

- The Sheriff should periodically, and on a surprise basis, compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should compare the quarterly financial report to receipts and disbursement ledgers for accuracy. Any difference should be reconciled. The Sheriff should document this by initialing the quarterly financial report.

Sheriff's Response:

Understand, but beyond our control.

WAYNE COUNTY
JAMES HILL, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
(Continued)

PRIOR YEAR:

The County Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This comment has not been corrected and is included in the current year audit.

The County Sheriff Has A Lack Of Adequate Segregation Of Duties

This comment has not been corrected and is included in the current year audit.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Bruce Ramsey, Wayne County Judge/Executive
The Honorable James Hill, Wayne County Sheriff
Members of the Wayne County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Wayne County Sheriff's Settlement - 2003 Taxes as of July 8, 2004, and have issued our report thereon dated September 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Wayne County Sheriff's Settlement - 2003 Taxes as of July 8, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wayne County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The County Sheriff Lacks Adequate Segregation Of Duties

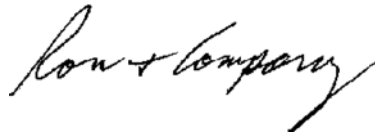
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -
September 15, 2004

